

Consumer confidence in April fell for a second consecutive month

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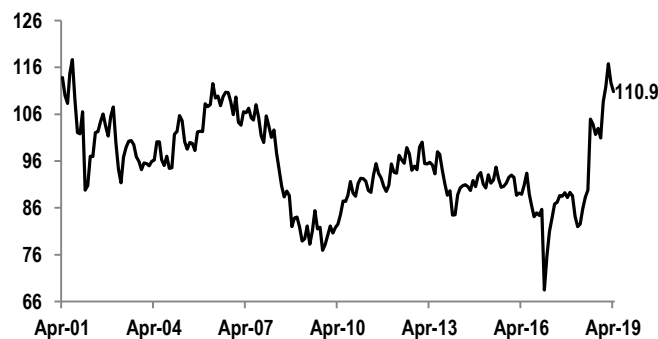
- **Consumer confidence (April; nsa): 110.9pts; Banorte: 112.4; consensus: 113.2 (range of estimates: 107.9 to 117.0) ; previous: 112.7**
- **In the year-over-year comparison, confidence is up 29.2%, moderating its rate of advance for second consecutive month**
- **Nevertheless, confidence declined 1.9% m/m, with the national expectations sub-index as the most pressured which in our view is related to dilution of political optimism.**
- **We expect consumer confidence to keep moderating in coming months, although its path lower could be very volatile and slow given that fundamentals for consumption remain positive**

Consumer confidence falls again in April. According to Banxico and *INEGI*'s report, consumer confidence fell for second consecutive month, standing at 110.9pts in April, below consensus at 113.2pts and closer to our 112.4pts forecast. Despite of the latter, the index remains 29.2% higher when compared to the same period of the previous year, as it has not reversed accumulated gains particularly since July 2018. In our view and as mentioned in our preview, an increased focus on the Federal Government's security policies have likely weighed in the president's approval rating and, consequently, on sentiment among consumers. Going forward, we believe that sentiment in the political front will keep influence consumer confidence dynamics, maintaining a relatively high correlation. On a secondary basis, the deceleration of economic activity (as portrayed by the 0.2% q/q decline in 1Q19 GDP) and the persistent moderation in the pace of job creation could also help explain part of the adjustment.

Nevertheless, by component we note that the country's national expectations sub-index remains as the strongest, standing at 118.5pts (+47.8% yoy). On the contrary, current conditions for households' shows the more modest advance at 107.1pts (+12%), which in our view could be related mostly to the weak start of the year in terms of activity, as mentioned above.

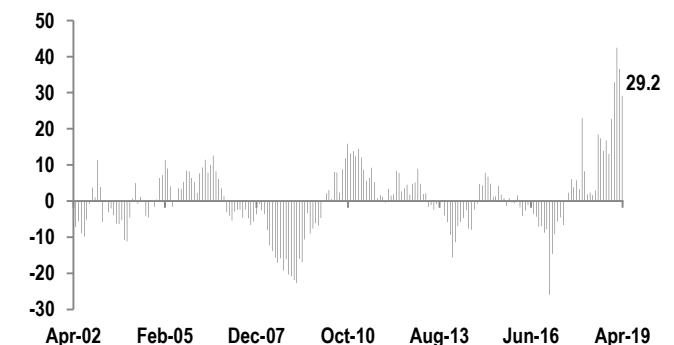
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Consumer confidence
index, nsa



Source: INEGI

Consumer confidence
% yoy, nsa



Source: INEGI

Consumer confidence: April 2019

nsa; % yoy

	Apr-19	Apr-18	%yoy
Headline index	110.9	85.8	29.2
Household's			
Current conditions	107.1	95.7	12.0
Expectations	111.5	95.0	17.4
National			
Current conditions	110.0	79.5	38.4
Expectations	118.5	80.2	47.8
Household's purchasing power	107.1	78.8	36.0

Source: INEGI

In seasonally adjusted terms, confidence fell 1.9% m/m, with a second consecutive monthly decline. Similar to the previous month, the deceleration was broad-based, with all sub-indices down except for the purchasing power component, which inched 0.1pts higher to 112.2pts despite the pickup in inflation during the 1st half of April –which was mainly due to factors related to the Easter holiday. Nevertheless, lingering pressures in core goods could keep affecting dynamics in this subcomponent in coming months. We also highlight that national expectations were down 4.8% this month on top of the 2.4% decline in March, giving us more confidence that political optimism is indeed fading away. In this respect, current conditions were also down by 3.8%. On the other hand, households' current and expectations components decreased only by 0.1% and 0.9%, respectively.

Consumer confidence: April 2019

seasonally-adjusted index; % m/m

	Apr-19	Mar-19	%m/m
Headline index	113.7	115.9	-1.9
Household's			
Current conditions	107.8	107.9	-0.1
Expectations	113.6	114.6	-0.9
National			
Current conditions	110.8	115.2	-3.8
Expectations	122.8	129.1	-4.8
Household's purchasing power	112.2	112.1	0.1

Source: INEGI

We expect consumer confidence to keep moderating in coming months.

Despite the adjustment observed in the last two months consumer confidence remains high, with the index 21% above its 5-year average. In our view, sentiment will keep declining gradually as political optimism fades away. Nevertheless, its path could be very volatile as it will remain influenced by specific political events during the period in question, while a relatively slow pace given that overall consumer fundamentals remain strong.

Therefore, the national expectations sub-index is likely to be the most affected by our expectation of a moderation in optimism, which is mostly tied to the president's popularity. As a result, we will keep monitoring available opinion polls regarding overall approval ratings.

We also warn that high consumer confidence has not supported a strong pickup in consumption, a situation that we expect to prevail. The latter has been to a great extent benefitted by higher real wages but partially compensated by the persistent moderation in the pace of formal job creation. Regarding this, the Federal Government has suggested that additional austerity measures could be in store, which could limit further a possible decline in the unemployment rate.

In our view, if this materializes it could have a negative effect in current conditions sub-indices, particularly for households. With inflation likely reestablishing its downward trend and considering that the Federal government has increased further subsidies to gasoline prices, pressures in the purchasing power component could be more limited. Last but not least, current national conditions are also likely to be sensitive to security issues and the situation at the Northern border.

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